Terrorism law extends federal help for insurers

By JENNIFER BATOG
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The federal government has extended a law to help property and casualty insurers with losses from a terrorist attack that causes tens of millions of dollars in damage, but the industry still is working on a long-term solution to insuring terrorism.

Under the law and the extension, the insurance industry is responsible for a percentage of commercial losses from a major terrorist act. After that, the federal government would cover the rest up to $100 billion.

President George W. Bush signed legislation extending the 2002 Terrorism Risk Insurance Act until Dec. 31, 2007. The original act expired Dec. 31, 2005.

The Property Casualty Insurers Association of America convened a task force in 2004 to evaluate the law and make recommendations on permanent legislation to Congress and the Bush administration. The panel included Wisconsin insurance executives Christopher Zwygart, assistant vice president for finance at West Bend Mutual Insurance Co., and Mark Afable and Lee Fanshaw, both of American family Insurance, of Madison, Wis.

Stopgap Measure

The extension is only a stopgap solution, said Rey Becker, the insurance association's vice president of commercial lines. Insurers want a long-term resolution to the issue, and regardless of what form it takes, the federal government should play a part, he said.

"Terrorism isn't going to go away on Jan. 1, 2008," he said. "We need to have a program in place that will address this problem going forward. We do feel there is a continuing role for the feds."

The Des Plaines, Ill.-based industry group's task force presented a plan to Congress last year. Although none of its suggestions were incorporated into the extension, Becker said the association is committed to its plan. The group and its task force continue to work with congressional leadership and others in the industry to craft an acceptable measure, Becker said.

Industry recommendations

The association's suggestions include:

- Allowing insurers to create a terrorism reinsurance pool that would enable the industry to share the risk of insuring terrorism
- Giving the pool the ability to issue bonds before and after a catastrophic terrorist event to help provide financing
- Allowing insurers to build up terrorism reserves tax free

The extension is a mixed bag for the industry, West Bernd Mutual's Zwygart said.

While the measure provides some protection for the industry, it raises the amount of damages an attack would need to cause in order for the government to get involved.

The extended law does provide private insurers protection in the event of a major catastrophe, such as a nuclear attack, dirty bomb or chemical attack, he said.

Because the amount that insurers much shoulder before the government will step in continues to increase, the industry continues to bear the risk for more isolated attacks, such as a truck bomb or suicide bomber, Zwygart said.

Higher deductibles

Previously, the government would step in if an attack caused $5 million in claims. The revised measure increases the size to $50 million this year and $100 million in 2007. It also raises the amount of firms' deductibles-what companies need to cover before the government takes over-from 15 percent to 17.5 percent in 2006 and 20 percent in 2007. The federal government also would cover less than previously. This year, once a firm met its deductible, the government would pay 90 percent of the losses. In 2007, that is reduced to 85 percent, with the companies absorbing the rest.

"One should never look a gift horse in the mouth, but there are a number of revisions that make the provision less useful to a carrier like West Bend," Zwygart said. "It's a temporary soft landing for the insurance industry."